

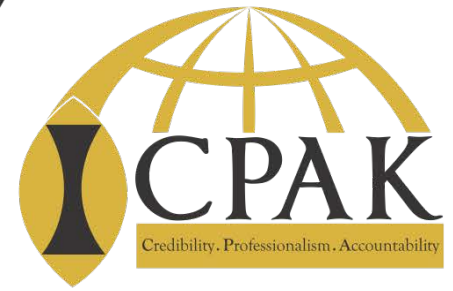


IFRIC 12

Service Concession Arrangements

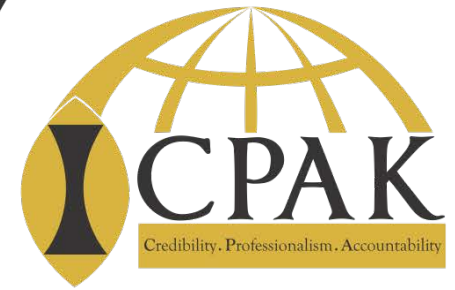
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You will learn:



- 1) The treatment of operator's rights over the infrastructure
- 2) Recognition and measurement of arrangement consideration

Scope of IFRIC 12



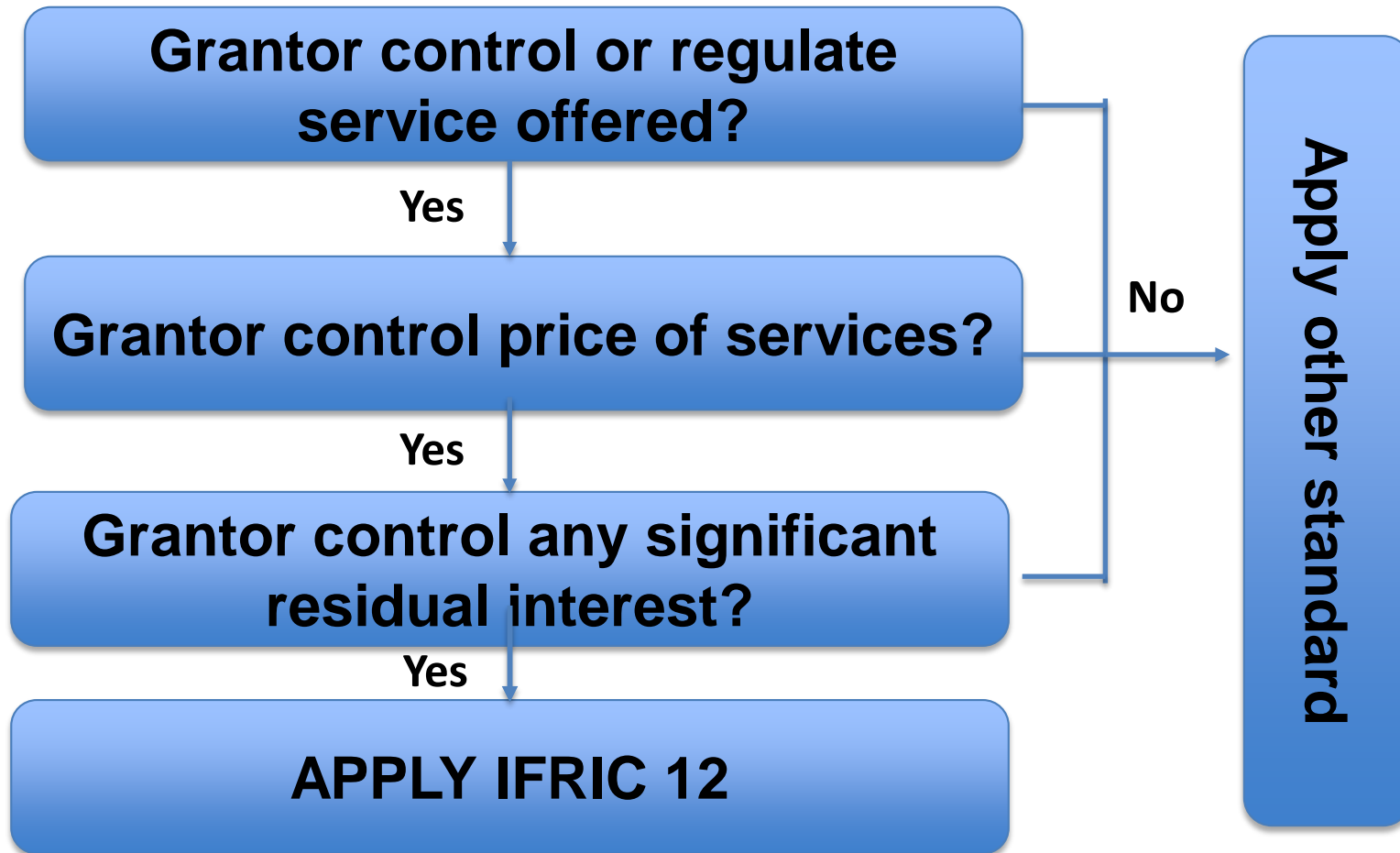
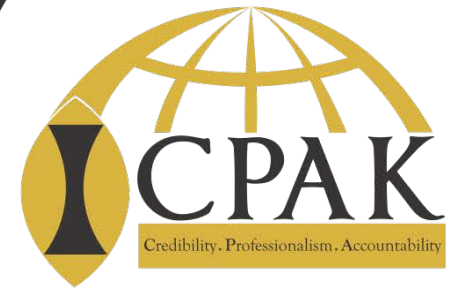
An arrangement is within scope of IFRIC 12 if:

The grantor controls what services are provided using the infrastructure, to whom and at what price

AND

The grantor controls beneficial entitlement or any significant residual interest in the infrastructure at the end of the term, or the infrastructure is used for all of its useful life

Scope of IFRIC 12



Example



Consider

- 30 year build-operate-transfer road scheme
- Operator incurs construction costs building the road in years 1-5
- Operator receives cash from grantor / users as the road is used in years 6-30

Key framing question

- What kind of asset should the operator recognize?

Operator's rights over infrastructure



The Operator does not recognise concession infrastructure as its property, plant and equipment (PPE) because:

- a) Operator does not control the infrastructure; and
- b) Operator only has access to operate on behalf of the grantor

Consideration for construction costs



The operator recognises compensation for construction or upgrade services as:

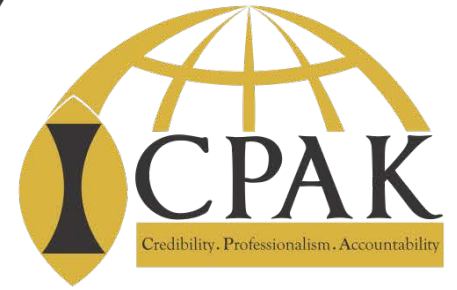
Financial asset

To the extent that the operator has an unconditional right to receive cash or another financial asset from the grantor for the construction services

Intangible asset

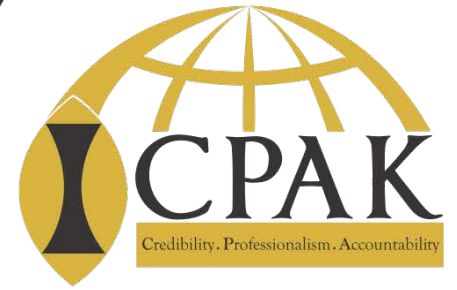
To the extent that the operator receives the right to charge users of the public service. This is not a right to receive cash because it is contingent upon use of the infrastructure

Operator's revenues



- The operator shall recognise and measure revenue in accordance with IFRS 15 for the services they perform.
- The operator shall account for construction or upgrade services in accordance with IFRS 15

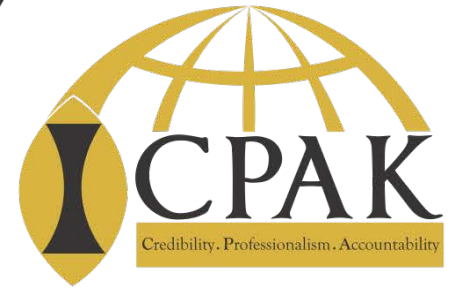
Example



What asset should the operator recognize in these cases?

1. Grantor pays operator a fixed amount that does not depend on usage of infrastructure.
2. Users pay operator for use of infrastructure.
3. Grantor pays operator according to use of the infrastructure (“shadow tolls”).
4. Users pay operator for use of infrastructure and grantor pays shortfall between actual revenue and predetermined level (“shortfall guarantee”).

Operator's revenues



If the operator recognises an **intangible asset**, then charges for use of the infrastructure are recognised in revenue as earned

If the operator recognises a **financial asset**, then payments received are allocated between pay down of the financial asset and compensation for operation services (interest income)

Subsequent measurement: Intangible asset



Generally measured under the cost model

No active market

Amortise over expected useful life

- Use an amortisation method that is consistent with how benefits are consumed (Usually, “straight line method”)
- Debate over amortisation based on usage

Subsequent measurement: Financial Asset



- Apply IFRS 9 measurement
- The amount due from grantor is measured at amortized cost or fair value through OCI
- Interest is calculated using the effective interest method and interest recognized in profit or loss



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